

CAGTR Business Links Seminar

The Challenge of Reporting Intangible Assets at Fair Value

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Definition

- ❖ **An intangible asset is an identifiable non-monetary asset without physical substance (NZ IAS 38)**
- ❖ **Key dimensions:**
 - * **Identifiability**
 - * **Control**
 - * **Existence of future economic benefits**

Recognition

An intangible asset is recognised if and only if

- ❖ **It is probable that the future economic benefits that are attributable to the asset will flow to the entity, and**
- ❖ **The cost of the asset can be measured reliably**

Recognition (contd.)

- ❖ Intangible assets arising from **research or the research phase** of an internal project are not recognised
- ❖ Intangible assets arising from **development or the development phase** of an internal project are recognised only if certain conditions are met that point to the asset becoming available for use or sale
- ❖ **Internally generated** brands, mastheads, publishing titles, customer lists and similar items are not recognised.

Measurement on recognition

An intangible asset is measured initially at cost. The meaning of '**cost**' depends on the circumstances of acquisition. If the asset is acquired:

- ❖ **Separately**, cost is purchase price plus any directly attributable costs incurred in preparing the asset for use
- ❖ **As part of a business combination**, cost is fair value at the acquisition date
- ❖ **As a government grant**, cost is fair value or a nominal amount

Measurement on recognition (contd.)

- ❖ **In an exchange of assets**, (that has commercial substance) cost is fair value but if that is not reliably measurable, cost is the carrying amount of the asset given up
- ❖ **Internally generated**, cost comprises all directly attributable expenditures necessary to create or produce the asset so as to be ready for its intended use or sale.

Measurement after recognition

After initial recognition an intangible asset must be carried at

- ❖ **'Cost'**, being initial cost less any accumulated amortisation and any accumulated impairment losses, or
- ❖ **Revalued amount**, being the fair value at the revaluation date less any subsequent accumulated amortisation and impairment losses.
 - Fair value must be able to be determined by reference to an active market.
 - Revaluations must take place with sufficient frequency to ensure that the carrying amount does not differ materially from fair value

Useful life

Intangible assets with

- ❖ **Finite useful life**, must be amortised
- ❖ **Indefinite useful life**, must be tested for impairment annually or whenever circumstances indicate possible impairment

(An asset is impaired if the carrying amount is greater than the recoverable amount (= higher of fair value less costs to sell and value in use))

Held for Sale

If an intangible asset is **held for sale**, the asset is measured at the lower of carrying amount and fair value less costs to sell

When do we estimate Fair Value

On initial recognition where an intangible asset is acquired:

- ❖ As part of a business combination
- ❖ As a government grant, or
- ❖ From an exchange of assets

After initial recognition

- ❖ Where the entity uses the revaluation model
- ❖ In testing for impairment
- ❖ If the asset is held for sale